

5-1300.00 LONG-TERM DEBT

5-1310.00 INTRODUCTION

5-1310.10 DEFINITIONS

"General Long-Term Debt (GLTD)" is defined as all unmatured principal of long-term debt except debt of the Proprietary or Trust Funds. GLTD includes the unmatured principal of bonds, notes, capital leases, claims and judgements, compensated absences, and other forms of general long term government debt.

"General Long-Term Debt Account Group (GLTDAG)" is a self-balancing non-fund accounting entity used to record all general long-term debt. Debts of the Proprietary or Trust Funds are not recorded in the GLTDAG but are recorded in those funds.

5-1310.20 BASIC ACCOUNTING PROCEDURES FOR GENERAL LONG-TERM DEBT

When debt is incurred, the principal owed is recorded as a liability and as an "Amount to Be Provided" in the GLTDAG.

The amount recorded as a liability is the "par" or maturity value, even if the debt was issued at a discount or premium.

A separate subsidiary account for each debt issue should be maintained.

While unmatured debt is outstanding, resources for retirement of the debt are accumulated, usually in the Debt Service Fund. In the GLTDAG, the "Amount to Be Provided" account is reduced and the "Amount Available" account is established or increased each year at fiscal year-end to reflect the accumulated resources in the Debt Service Fund.

Interest and principal on long-term debt are generally recorded as expenditures in the year they become due and payable. However, if the resources to make a debt payment have been accumulated by June 30 and the payment will be due and payable early in the next fiscal year, the district **may** record the expenditure for principal and interest in the current fiscal year. The method of recording debt interest and principal must be applied consistently from year to year.

When debt matures, a current liability is recorded in the fund which will repay the debt (often the Debt Service Fund). The liability and related "Amounts to Be Provided" and "Amounts Available" accounts are reversed from the GLTDAG. All mature debt and interest should be recorded as expenditures for the current year if due on or before June 30, or if due early in the next fiscal year and the resources to repay the debt are accumulated by June 30.

5-1320.00 BONDS

Instructions for issuing bonds in compliance with Montana laws are published in the School Bond Manual for Montana School Districts. Copies are available from the Montana Attorney General's Office (Beverly Rhodes, 444-2026).

5-1320.10 RECORDING BOND TRANSACTIONS

To record the sale of bonds: Assume the school district issued \$100,000 of general obligation bonds.

Building Fund (60)

Debit: 101	Cash	\$100,000
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Credit: 402	Revenues	\$100,000
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Revenues Subsidiary Ledger

X60-5110	Other Financing Sources-Sale of Bonds	\$100,000
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(To record the receipt of bond proceeds from issuing general obligation bonds.)

GLTDAG (99)

Debit: 404	Amount to Be Provided for Retirement of General Long-Term Debt	\$100,000
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Credit: 710	Bonds Payable	\$100,000
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(To record general long-term debt liability in the GLTDAG.)

To record bond issue costs: Record the costs of issuing bonds as expenditures of the same fund which received the bond proceeds. For example, assume the district must pay an agent fee to the entity which issued the bonds.

Building Fund (60)

Debit: 802	Expenditures	\$500
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Credit: 620 or 101	Warrants Payable or Cash	\$500
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Expenditures Subsidiary Ledger

X60-1XX-4600-860	Agent Fees	\$500
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(To record the costs of issuing bonds. Note that the costs are not netted with bond proceeds but are shown as current expenditures.)

To record the accumulation of funds in the Debt Service Fund to repay the bonds:

Debt Service Fund (50)

Debit: 101	Cash	\$ 40,000
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Credit: 402	Revenues	\$ 40,000
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Revenues Subsidiary Ledger

X50-XXXX	Any appropriate revenue source	\$ 40,000
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(To record receipt of cash which will be used to retire general long-term debt previously recorded in the GLTDAG.)

At fiscal year-end, to adjust the GLTDAG accounts: This adjustment is generally done once annually as part of the closing process.

GTDAG (99)

Debit: 403	Amount Available in Debt Service Fund	\$ 40,000
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Credit: 404	Amount to Be Provided for Retirement of General Long-Term Debt	\$ 40,000
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(To reverse the Amount to Be Provided account by the amount of cash received by the Debt Service Fund during the year.)

5-1320.10 RECORDING BOND TRANSACTIONS (Cont'd)

To record a bond payment made by June 30: Record the entire bond payment (principal and interest) which is due on or by June 30 as an expenditure in the fund which paid the debt.

Debt Service Fund (50)

Debit: 802	Expenditures	\$25,000
Credit: 101	Cash	\$25,000
Expenditures Subsidiary Ledger		
X50-XXX-XXXX-840	Principal	\$XX,XXX
X50-XXX-XXXX-850	Interest	\$ XXX
X50-XXX-XXXX-860	Agent Fees	\$ XX

(To record a bond payment made during the year by June 30.)

To record a payment due by June 30 which has not been paid: Record the expenditure as shown in the previous entry, but credit 640 Matured Bonds Payable, 655 Matured Interest Payable, and 621 Accounts Payable for the accrued principal, interest, and agent fees.

To adjust the GLTDAG to reduce the debt when a portion is paid: For example, when the payment shown in the previous entry was made, the district would also adjust the GLTDAG as follows.

GLTDAG (99)

Debit: 710	Bonds Payable	\$25,000
Credit: 403	Amount Available in the Debt Service Fund	\$25,000

(To reduce the long-term liability for the payment.)

At fiscal year-end, to record a bond payment due early in the next year: GAAP allows the following options. The district may:

1. Record the expenditure for the entire payment (principal and interest) in the next year when it becomes due as shown in the previous entry (no entry is recorded at fiscal year-end); OR
2. If the bond payment is due early in the next fiscal year, the liability and expenditure **may** be recorded in the current year and be charged to the current year's budget **IF RESOURCES TO FUND THE PAYMENT HAVE BEEN ACCUMULATED DURING THE CURRENT YEAR FOR THE PAYMENT**. This option is shown in the following entry.

To record the expenditure at fiscal year-end for a bond payment due early in the next fiscal year: Reverse that portion of the principal liability from the GLTDAG. For example, assume that \$10,000 in bonds, \$1000 in interest, and \$25 in agent fees is due July 2 (year 2), and the district has accumulated resources in the current year (year 1) sufficient to make the entire payment.

Debt Service Fund (50)

Debit: 802	Expenditures	\$11,025
Credit: 640	Matured Bonds Payable	\$10,000
Credit: 655	Matured Interest Payable	\$ 1,000
Credit: 621	Accounts Payable	\$ 25
Expenditures Subsidiary Ledger		
X50-XXX-XXXX-840	Principal	\$10,000
X50-XXX-XXXX-850	Interest	\$ 1,000
X50-XXX-XXXX-860	Agent Fees	\$ 25

(To record expenditures for matured debt, interest, and agent fees due July 2.)

GLTDAG (99)

Debit: 710	Bonds Payable	\$10,000
Credit: 403	Amount Available in Debt Service Fund	\$10,000

(To reverse the portion of long-term debt principal which will be paid on July 2. If the amount to be provided was not recorded in the GLTDAG as 403 Amount Available in the Debt Service Fund, credit the 404 Amount to be Provided account.)

5-1320.10 RECORDING BOND TRANSACTIONS (Cont'd)

To record a bond payment in year 2 which was accrued at the previous fiscal year-end:

Debt Service Fund (50)

Debit: 640	Matured Bonds Payable	\$10,000
Debit: 655	Matured Interest Payable	\$ 1,000
Debit: 621	Accounts Payable	\$ 25
Credit: 620 or 101	Warrants Payable or Cash	\$11,025

(To record payment of liabilities for principal, interest and fees due July 2.)

The portion of the liability for future payments of debt principal should remain in the GLTDAG as a long-term liability and should be recorded as an expenditure when due in a subsequent year.

If the option is chosen to record an expenditure in the current year for debt service payment due early in the next fiscal year, that practice should be followed consistently from year to year.

NOTE: Since more recent bond issues use registered bonds, the county treasurer will normally show July bond and interest payments as expenditures in June. In these cases, the district would record a credit to cash rather than payables at the end of each fiscal year.

5-1320.20 RECORDING REFUNDING BONDS

BUDGETING

Section 20-9-435, MCA, requires the proceeds from refunding bonds be deposited to the Debt Service Fund which is a budgeted fund. Accordingly, the sale of refunding bonds, redemption of old bonds, and bond issuance costs should be anticipated in the final Debt Service Fund budget whenever possible. If the refunding bond issue is commenced after the final budget, OPI recommends that budget amendment procedures be followed to provide adequate budget authority to cover the bond issue. Section 20-9-133 has a special provision excluding any legal bond payment required to be made in the current fiscal year from the final budget. Check with your county attorney as to whether refunding bonds required budget amendment.

ACCOUNTING—FISCAL AGENCY DIRECT

Some refunding bonds issues are handled entirely by a fiscal agent and no cash transactions are recorded by the county treasurer or the school district. However, generally accepted accounting principles require the transaction be recorded and reported under full disclosure principle.

To record the fiscal agent's direct refunding of bonds:

Debit: X50-802	Expenditures	\$512,000
Credit: X50-402	Revenues	\$512,000

Revenue Subsidiary Ledger

X50-5120	Sale of Bonds	\$512,000
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Expenditure Subsidiary Ledger

X50-1XX-6300-840	Bond Principal/Old Issue	\$500,000
X50-1XX-6300-850	Interest to Recall Date	\$ 10,000
X50-1XX-6300-860	Bond Issuance Costs	\$ 2,000

Note: Columnar accounting systems may either add columns to record the above transaction or record and explain the transaction on the cash to accrual worksheet.

ACCOUNTING—DISTRICT AND FISCAL AGENT

the following is an example of how to record entries when the fiscal agent sends money to the school district to pay for the issuance costs. Assume the same example above but the fiscal agent sends \$2,000 to the school district to pay for the issuance costs.

5-1320.20 RECORDING REFUNDING BONDS (Cont'd)

To record the fiscal agent's refunding of bonds where the district receives money for issuance costs:

Debit: X50-802	Expenditures	\$510,000
Credit: X50-402	Revenues	\$510,000

Revenue Subsidiary Ledger		
X50-5120	Sale of Bonds	\$510,000

Expenditure Subsidiary Ledger		
X50-1XX-6300-840	Bond Principal/Old Issue	\$500,000
X50-1XX-6300-850	Interest to Recall Date	\$ 10,000
X50-1XX-6300-860	Bond Issuance Costs	\$ -0-

To record the amount received from the fiscal agent:

Debit: X50-101	Cash	\$ 2,000
Credit: X50-402	Revenues	\$ 2,000

Revenue Subsidiary Ledger		
X50-5120	Sale of Refunding Bonds	\$ 2,000

To record the payment of bond issuance costs:

Debit: X50-802	Expenditures	\$ 2,000
Credit: X50-101	Cash	\$ 2,000

Expenditure Subsidiary Ledger		
X50-1XX-6300-860	Bond Issuance Costs	\$ 2,000

5-1330.00 LEASES

5-1330.10 DEFINITIONS

"Lessee" is the party leasing the property and responsible to pay the lease payments.

"Lessor" is the party which receives lease payments.

"Capital Lease" transfers substantially all the benefits and risks inherent in ownership of the property to the lessee, who accounts for the lease as an acquisition of property and incurrence of a liability.

If, at the inception of the lease, a lease meets one or more of the following criteria, the **lease should be classified as a capital lease**:

- By the end of the lease term, ownership of the leased property is transferred to the lessee;
- Lease has a bargain purchase option, meaning the lessee may purchase the property during the term of the lease at an amount substantially less than the estimated fair value of the property;
- The lease term is 75% or more of the property's estimated useful life (unless the lease begins in the final 25% of the asset's life);
- The present value of minimum lease payments is 90% or more of the fair value of the leased property (unless the lease begins in the final 25% of the asset's life).

"Operating Lease" is any lease which does not meet at least one of the criteria above for capital leases. Operating leases are accounted for in the same manner as rent payments.

5-1330.20 RECORDING OPERATING LEASES

When the lease term begins, no entry is needed.

To record the periodic payment on an operating lease:

Debit: 802 Expenditures
Credit: 620 or 101 Warrants Payable or Cash
Expenditures Subsidiary Ledger
XXX-XXX-XXXX-45X Rental
(To record a periodic payment on an operating lease.)

5-1330.30 RECORDING CAPITAL LEASES--LESSEE

When a district acquires leased property through a capital lease from another party, the district must record the leased asset in the General Fixed Asset Account Group (GFAAG). The fixed asset value recorded in the GFAAG is the lower of the present value of the minimum lease payments or the fair value of the property. The present value of the minimum lease payments is the periodic lease payment times the present value annuity factor using the lower of: (a) the lessor's interest rate; or (b) the rate at which the district could borrow money to pay the lease off immediately.

The lease is also recorded as a nonbudgeted expenditure (balance sheet account 890) and a nonbudgeted revenue (balance sheet account 490) in a governmental fund.

For example, assume the district leases equipment and will obtain title at the end of 5 years. Payments of \$50,000 are due each July 1, beginning July 1, 1991. The fair market value of the equipment is \$208,493. The lessor's interest rate is 10%, which is the same rate at which the district could borrow money from the Board of Investments.

The minimum lease payments are calculated as follows:

Annual lease payments	\$ 50,000
Present value of an annuity due, interest rate is 10% and the number of periods is 5 (See an annuity table.)	X 4.16986
Present value of minimum lease payments	\$ 208,493
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An amortization schedule based on the example above is presented below:

Lease Amortization Schedule				
Date	Annual Lease Payment	Interest on Unpaid Obligation	Reduction of Lease Obligation	Balance of Lease Obligation
8/1/91				\$208,493
8/1/91	\$50,000		\$50,000	158,493
8/1/92	50,000	\$15,849	34,151	124,342
8/1/93	50,000	12,434	37,566	86,776
8/1/94	50,000	8,678	41,322	45,454
8/1/95	50,000	4,546	45,454	-0-

5-1330.31 RECORDING CAPITAL LEASES -- LESSEE -- GOVERNMENTAL FUND TYPES

To record the initial lease agreement: GAAP requires that an expenditure and revenue equal to the asset value be recorded in the fund which will make the lease payments.

Governmental Fund Types

Debit: 890	Nonbudgeted Expenditures	\$208,493
Credit: 490	Nonbudgeted Revenues	\$208,493

(To record the proceeds and expenditures of a capital lease transaction. Since the lease creates a future liability and future benefit but future debt service payments will be shown as expenditures, the nonbudgeted expenditure and revenue codes must be used. The 490 and 890 accounts are used for GAAP financial statement preparation. The net effect of the accounts on the fund balance of the governmental fund is zero.)

For financial statements presented in accordance with GAAP, the district should report the nonbudgeted lease expenditures as capital outlay expenditures and the nonbudgeted lease revenues as an Other Financing Source.

To record the asset acquired with a capital lease:

GFAAG (98)

Debit: 341	Machinery and Equipment	\$208,493
Credit: 911	Investment in General Fixed Assets-General Fund	\$208,493

(To record fixed asset acquired by capital lease.)

To record the long-term debt incurred by entering a capital lease:

GLTDAG (99)

Debit: 404	Amount to be Provided to Retire General Long Term Debt	\$208,493
Credit: 730	Lease Obligations	\$208,493

(To record a long-term lease obligation. The amount to record here is the same as the asset value recorded in the GFAAG in the previous entry.)

To record the first lease payment:

General Fund (01)

Debit: 802	Expenditures	\$50,000
Credit: 620 or 101	Warrants Payable or Cash	\$50,000
Expenditures Subsidiary Ledger		
X01-1XX-5200-840	Principal	\$50,000

(To record the first lease payment.)

GLTDAG (99)

Debit: 730	Lease Obligations	\$50,000
Credit: 404	Amount to be Provided to Retire Long-Term Debt	\$50,000

(To record the amount of the first payment as a reduction of the lease obligation.)

5-1330.31 RECORDING CAPITAL LEASES -- LESSEE -- GOVERNMENTAL FUND TYPES (Cont'd)

To record the second year's lease payment: If the resources to make the payment due early in the next fiscal year are accumulated by June 30, the expenditures may be recorded in that year. If the district chooses that option, the expenditures should be accrued at each fiscal year end throughout the term of the lease for consistency.

General Fund (01)

Debit: 802	Expenditures	\$50,000
Credit: 620 or 101	Warrants Payable or Cash	\$50,000
Expenditures Subsidiary Ledger		
X01-1XX-5200-840	Principal	\$34,151
X01-1XX-5200-850	Interest	\$15,849

(To record payment of the second lease payment.)

GLTDAG (99)

Debit: 730	Lease Obligations	\$34,151
Credit: 404	Amount to be Provided to Retire Long Term Debt	\$34,151

(To reduce the long-term lease obligation by the amount of principal paid in the second payment. Note that only the principal portion is recorded in the GLTDAG.)

When payments are made in subsequent years, entries would follow the same format.

5-1330.32 RECORDING CAPITAL LEASES -- LESSEE -- PROPRIETARY FUND TYPES

Leases which are to be paid using proprietary funds are recorded as liabilities of the specific fund instead of the GLTDAG. For example, assume the lease in the previous example is to be paid by a proprietary fund type.

To record the lease asset and obligation:

An Enterprise Fund

Debit: 341	Machinery and Equipment	\$208,493
Credit: 730	Leases Obligations	\$208,493

(To record the liability and asset acquired by capital lease.)

The debt is recorded in the fund itself, so there is no entry in the GLTDAG.

To record the first lease payment:

An Enterprise Fund

Debit: 730	Lease Obligations	\$50,000
Credit: 620 or 101	Warrants Payable or Cash	\$50,000

(To record the first payment on the capital lease.)

At fiscal year-end, to record annual depreciation on the leased asset:

An Enterprise Fund

Debit: 802	Expenditures	\$34,749
Credit: 342	Allowance for Depreciation of Machinery & Equipment	\$34,749

Expenditures Subsidiary Ledger

X7X-920-3200-750	Depreciation Expense	\$34,749
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(To record annual straight-line depreciation. The amount is the asset value \$208,493 divided by the 6 year estimated useful asset life.)

5-1330.32 RECORDING CAPITAL LEASES -- LESSEE -- PROPRIETARY FUND TYPES (Cont'd)

To record the second year's lease payment: If the resources to make the payment due early in the next fiscal year are accumulated by June 30, the expenditures may be recorded in that year. If the district chooses that option, the expenditures should be accrued at each fiscal year end throughout the term of the lease for consistency.

An Enterprise Fund

Debit: 802	Expenditures	\$15,849
Debit: 730	Lease Obligations	\$34,151
Credit: 620 or 101	Warrants Payable or Cash	\$50,000

Expenditures Subsidiary Ledger

X7X-920-3200-850	Interest	\$15,849
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(To record the second payment of principal and interest. Notice that interest is recorded as an expenditure when paid, but principal is not. The principal portion is recorded as an expenditure over the life of the asset as depreciation expense.)

When payments are made in subsequent years, entries would follow the same format.

5-1330.40 CAPITAL LEASES--LESSOR

When the district transfers property to another party through a capital lease, the transaction is essentially a sale of property. The asset should be removed from the books and a receivable is recorded for the future lease payments.

For example, assume the district leases equipment for which title will pass to the lessee at the end of 5 years. Payments of \$50,000 are due each August 1, beginning August 1, 1991. The carrying value of the asset on the district's books is \$250,000.

Lease Amortization Schedule

Date	Annual Lease Payment	Interest on Unpaid Obligation	Principal	Balance of Lease Receivable
8/1/91				\$250,000
8/1/91	\$50,000		\$50,000	200,000
8/1/92	50,000	\$15,849	34,151	150,000
8/1/93	50,000	12,434	37,566	100,000
8/1/94	50,000	8,678	41,322	50,000
8/1/95	50,000	4,546	45,454	-0-

5-1330.41 CAPITAL LEASES -- LESSOR -- GOVERNMENTAL FUND TYPES

To record the lease receivable and the receipt of the first lease payment:

Governmental Fund Types

Debit: 190	Accounts Receivable	\$200,000
Debit: 101	Cash	\$ 50,000
Credit: 680	Deferred Revenues	\$200,000
Credit: 402	Revenue	\$ 50,000

Revenue Subsidiary Ledger

XXX-5500	Other Financing Sources-Capital Leases	\$ 50,000
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(To record a receivable for the lease revenues to be received in the future and cash received when the leases was entered.)

GFAAG (98)

Debit: 91X	Investments in General Fixed Assets	\$250,000
Credit: 341	Machinery and Equipment	\$250,000

(To remove the cost of the fixed asset, which has been leased, from the inventory. Notice that the cost on the inventory records may differ from the lease account receivable recorded above.)

To record the receipt of the second lease payment:

Governmental Fund Types

Debit: 101	Cash	\$50,000
Credit: 190	Accounts Receivable	\$50,000
Debit: 680	Deferred Revenues	\$50,000
Credit: 402	Revenues	\$50,000

Revenue Subsidiary Ledger

XXX-1510	Interest Income	\$15,849
XXX-5500	Other Financing Sources-Capital Leases	\$34,151

(To record receipt of the second payment on the capital lease.)

Receipt of subsequent payments would be recorded following the same format.

5-1330.42 CAPITAL LEASES -- LESSOR -- PROPRIETARY FUND TYPES

To record the lease receivable and the receipt of the first payment:

Proprietary Fund Types

Debit: 190	Accounts Receivable	\$200,000
Debit: 101	Cash	\$ 50,000
Debit: 342	Allowance for Depreciation on Machinery and Equipment	\$ 20,000
Credit: 341	Machinery and Equipment	\$270,000

(To record the receivable for a capital lease, receipt of the first payment, and removal of the fixed asset and related accumulated depreciation from the books.)

5-1330.42 CAPITAL LEASES--LESSOR--PROPRIETARY FUND TYPES (Cont'd)

At fiscal year-end, to record interest income earned but not received by June 30:

Proprietary Fund Types

Debit: 114	Interest Receivable	\$11,398
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Credit: 402	Revenues	\$11,398
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Revenues Subsidiary Ledger

XXX-1510	Interest Income	\$11,398
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(To record interest income earned but not received in cash at June 30. The amount is the total interest included in the second payment \$12,434 divided by 12 months, times 11 months accumulated.)

At the beginning of the next year, to record the receipt of the second payment:

Proprietary Fund Types

Debit: 101	Cash	\$50,000
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Credit: 114	Interest Receivable	\$11,398
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Credit: 402	Revenues	\$38,602
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Revenues Subsidiary Ledger

XXX-1510	Interest Income	\$ 1,036
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XXX-5500	Other Financing Sources-Capital Leases	\$37,566
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(To record cash received for lease payment, reversal of interest receivable recorded at the previous fiscal year end, and lease revenues.)

When payments are received in subsequent years, the entries would follow the same format.

5-1340.00 NOTES/LONG-TERM LOANS - GOVERNMENTAL FUNDS

This section discusses accounting for long-term loans and notes payable. Generally, a loan is considered long-term debt if it will be repaid in a period greater than one year. Loans repaid in one year or less are considered short-term debt. See "SHORT TERM LOANS," SECTION 5-1000.00.

Proceeds of long-term notes and loans are recorded as Other Financing Sources. Payments for principal and interest on the loan are recorded as normal operating expenditures.

The law authorizes districts to borrow from the state Board of Investments for a period of up to 10 years (20-9-471, MCA), except loans repaid from the Building Reserve Fund are limited to 5 years (20-9-503, MCA). Transportation laws limit the time allowed for borrowing to finance the purchase of school buses to a period of 3 years (20-10-110, MCA).

School districts and cooperatives are not legally authorized to borrow money from a bank or any other financial institution. Loan proceeds are restricted for uses specified by law. See section 5-1340.10 below. Loan proceeds should generally be deposited in the General Fund (01), Transportation Fund (10), or Building Fund (60) to spend in accordance with restrictions in law. The Miscellaneous Programs Fund (15) may be used if a building fund hasn't been established and the life of the project is less than one year. Other funds may be used if appropriately used for expenditures allowed under law. Loans may be repaid using any legally available funds of the district.

5-1340.10 INTERMEDIATE TERM CAPITAL PROGRAM (INTERCAP)

The State of Montana Board of Investments provides intermediate term loans up to ten years to school districts. These loans can be used for financing vehicles and equipment, renovating and remodeling facilities, and other capital expenditures including acquiring real property or construction of a facility with certain restrictions, (20-9-471, MCA).

PROJECTS NOT PAID FROM BUILDING RESERVE FUND

There is an origination cost of 1.0 percent of the total project funding per school district. One percent of the project amount must be submitted with your Commitment Agreement as the commitment fee. For example:

Project Amount	\$10,000
Costs of Issuance	100
Total Amount of Loan	\$10,100

The example below assumes the district borrows \$10,000 from the Board of Investments for building improvements to be repaid in ten semi-annual payments of \$1,015 plus 7.5% interest from the General Fund.

To record payment of the commitment fee:

General Fund (01)

Debit: 802	Expenditures	\$ 100
Credit: 620 or 101	Warrants Payable or Cash	\$ 100
Expenditures Subsidiary Ledger		
X01-1XX-52XX-860	Agent Fees	\$ 100

(To record Commitment Fee to the Board of Investments.)

To record receipt of the loan proceeds:

Building Fund (60)

Debit: 101	Cash	\$10,100
Credit: 402	Revenues	\$10,100
Revenues Subsidiary Ledger		
X60-5400	Other Financing Sources-Proceeds from Long-Term Liabilities	\$10,100

(To record receipt of loan proceeds.)

GLTDAG (99)

Debit: 404	Amount to Be Provided for Retirement of Long-Term Debt	\$10,100
Credit: 720	Notes Payable	\$10,100

(To record the long-term liability for the note payable.)

5-1340.10 INTERMEDIATE TERM CAPITAL PROGRAM (INTERCAP) (Cont'd)

To record expenditures financed with loan proceeds:

Building Fund (60)

Debit: 802	Expenditures	\$10,100
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Credit: 620 or 101	Warrants Payable or Cash	\$10,100
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Expenditures Subsidiary Ledger

X60-1XX-46XX-XXX	Any appropriate expenditure object	\$10,100
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(To record the payment for building improvements funded by the issuance of long-term loans.)

If the Board of Investments paid the vendor directly, instead of recording the two preceding entries, record the proceeds and expenditure as follows:

Building Fund (60)

Debit: 802	Expenditures	\$10,100
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Credit: 402	Revenues	\$10,100
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Expenditures Subsidiary Ledger

X60-1XX-46XX-XXX	Any appropriate expenditure object	\$10,100
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Revenues Subsidiary Ledger

X60-5400	Other Financing Sources-Proceeds from Long-Term Liabilities	\$10,100
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(To record loan proceeds and the expenditure.)

GLTDAG (99)

Debit: 404	Amount to Be Provided for Retirement of Long-Term Debt	\$10,100
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Credit: 720	Notes Payable	\$10,100
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(To record the long-term liability for the note payable.)

To record the first semi-annual loan payment:

General Fund (01)

Debit: 802	Expenditures	\$ 1,396
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Credit: 620 or 621	Warrants Payable or Cash	\$ 1,396
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Expenditures Subsidiary Ledger

X01-1XX-52XX-840	Principal	\$ 1,015
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X01-1XX-52XX-850	Interest on Debt	\$ 381
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(To record the first payment on the note, consisting of principal and 7.5% interest.)

GLTDAG (99)

Debit: 720	Notes Payable	\$ 1,015
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Credit: 404	Amounts to be Provided for Retirement of Long-Term Debt	\$ 1,015
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(To remove the portion of the liability in the amount of the principal which was repaid.)

5-1340.10 INTERMEDIATE TERM CAPITAL PROGRAM (INTERCAP) (Cont'd)

To record the second semi-annual payment:

General Fund (01)

Debit: 802	Expenditures	\$ 1,358
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Credit: 620 or 101	Warrants Payable or Cash	\$ 1,358
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Expenditures Subsidiary Ledger

X01-1XX-52XX-840	Principal	\$ 1,015
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X01-1XX-52XX-850	Interest on Debt	\$ 343
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(To record the second payment on the note, consisting of principal and 7.5% interest.)

GLTDAG (99)

Debit: 720	Notes Payable	\$ 1,015
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Credit: 404	Amounts to Be Provided for Retirement of Long-Term Debt	\$ 1,015
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(To remove the portion of the liability in the amount of the principal which was repaid.)

Subsequent payments should be recorded using the same procedures as shown above.

PROJECTS PAID FROM BUILDING RESERVE FUND

The 1997 Legislature amended Section 20-9-471, MCA, to allow repayment of Board of Investment loans from the Building Reserve Fund if approved by the voters. School districts should deposit the loan proceeds into the Building Reserve Fund (61) and use the same accounting entries in the above example substituting Fund 61 for Fund 60 and Fund 01. Accounting entries to record the loan in the General Long Term Debt Account Group remain the same.

5-1350.00 COMPENSATED ABSENCES

5-1350.10 DEFINITIONS

"Compensated absences" are absences from employment because of illness, holiday, vacation, or other reasons, for which the employer pays the employee.

5-1350.20 PURPOSE

The purpose of recording a liability for compensated absences is to ensure full disclosure of all obligations of the district as required by GAAP. Since the employer will be required to pay the employee for some portion of the compensated absences at a future date, the obligation of the district exists and should be reflected in the accounting records.

5-1350.30 BASIC ACCOUNTING PROCEDURES

If the district expects to pay an employee for compensated absences at some time in the future, record a liability on the books IF ALL THE FOLLOWING CONDITIONS EXIST:

- a. The employee's right to receive the compensation for the future absences is attributable to services already performed by the employee;
- b. The employee's right to receive the compensation for future absences is vested or accumulates;
- c. Payment is probable; and
- d. The amount can be reasonably estimated.

Compensated absences related to employees paid from the **enterprise funds** are recorded as expenditures and liabilities in those funds. Compensated absences for **all other funds** are considered general long-term debt and are recorded as a long-term liability in the GLTDAG.

The compensated absence liability recorded in the GLTDAG is normally **adjusted annually** at fiscal year end to reflect the estimated liability for compensated absences at that time based on the most current information available. The compensated absence liabilities recorded in enterprise funds may be adjusted annually or may be reversed at the beginning of the next fiscal year and recorded at the end of the fiscal year.

The liability is calculated each fiscal year-end using the most current information available:

Service time used in calculations should include the accumulated balance of hours. For example, if the employee is allowed to accumulate only 4 weeks vacation leave and he has earned 5 weeks, only 4 weeks would be considered because the fifth week is not allowed to accumulate. Calculate the liability at year end based on time which represents the "cash in" value of compensation at termination (e.g. 100% of vacation time and 25% of sick leave accumulated).

5-1350.30 BASIC ACCOUNTING PROCEDURES (Cont'd)

Salaries used in calculations should be current rather than salaries in effect when the time was earned; current salaries more accurately reflect the liability because the payment for absences will be made at the employee's current salary rate at termination.

Employer contributions for FICA, TRS, PERS, Workers' Compensation, and Unemployment Compensation will become due and payable on the amount of accumulated compensated absence pay for a terminating employee. These contributions are also obligations of the district related to compensated absences. Districts should estimate the amounts of these contributions based on current rates and salaries, and add the amounts to the liability for compensated absences.

5-1350.40 CALCULATING THE LIABILITY FOR COMPENSATED ABSENCES

The compensated absences worksheet in section 6-0200 of this manual is a suggested format for calculating the district's liability each June 30.

5-1350.50 RECORDING COMPENSATED ABSENCES

5-1350.51 RECORDING COMPENSATED ABSENCES -- GOVERNMENTAL FUND TYPES

Liabilities for compensated absences of employees paid from governmental funds are recorded in the GLTDAG only. In the year the payment is made to a terminating employee, payment is recorded as a current expenditure in the paying fund. The liability balance in the GLTDAG is adjusted once yearly at year end.

In the first year, establish the compensated absences liability at year end: For example, assume the liability at June 30 as calculated using the worksheet in section 6-0200 of this manual is \$4600 for employees paid from all district governmental fund types.

GLTDAG (99)

Debit: 405	Amount to Be Provided for Compensated Absences	\$4600
Credit: 760	Compensated Absences Payable	\$4600

(To record the liability for governmental funds. When first establishing the GLTDAG, the amount to record as a liability under 760 would be the total liability calculated at year end. In subsequent years, adjust the liability on the books to the amount calculated at each fiscal year end. The entry will result in either a debit to 760 to decrease the liability or a credit to 760 increase the liability.)

If the district has money accumulated in the Compensated Absences Fund: The entry above would show the amount accumulated as a balance in 403 Amount Available in the Compensated Absences and Debt Service Funds.

GLTDAG (99)

Debit: 405	Amount to Be Provided for Compensated Absences	\$3300
Debit: 403	Amount Available in the Compensated Absences and Debt Service Funds*	\$ 700
Credit: 760	Compensated Absences Payable	\$4600

(To record the liability for governmental funds.)

*This is the total fund balances of the CALF and Debt Service Funds.

5-1350.51 RECORDING COMPENSATED ABSENCES -- GOVERNMENTAL FUND TYPES (Cont'd)

To record termination payments made during the year:

Governmental Fund Type Fund Which Pays Employee

Debit: 802 Expenditures

Credit: 620 or 101 Warrants Payable or Cash

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-160 Sick Leave Termination Pay

XXX-XXX-XXXX-170 Vacation Termination Pay

XXX-XXX-XXXX-2XX FICA, PERS, Workers' Compensation, etc.

(To record payment to a terminated employee and to various benefit plans for the amounts due on the termination pay. If the district has resources accumulated in the **Compensated Absences Fund**, part of this payment would be shown as an expenditure from that fund. NOTE: THE GLTDAG IS NORMALLY NOT ADJUSTED DURING THE YEAR.)

At fiscal year-end, to adjust the balance of the liability on the GLTDAG: Calculate the liability at June 30 using the compensated absences worksheet. Adjust the balance of the liability account to the liability at June 30. For example, assume the liability on June 30 of year 2 is \$4800. Increase the liability account to match the new balance.

GLTDAG (99)

Debit: 405 Amount to Be Provided for Compensated Absences \$ 200

Credit: 760 Compensated Absences Payable \$ 200

(To increase the liability for the compensated absences for governmental funds. This entry would be reversed, debiting 760, if decreasing the liability.)

5-1350.52 RECORDING COMPENSATED ABSENCES -- ENTERPRISE FUND TYPES

In the first year, to establish the compensated absence liability at year end: Determine the amount earned in the current year separately from the amount earned in previous years. For example, assume the liability is \$4600, of which \$3000 was earned in previous years.

An Enterprise Fund

Debit: 802 Expenditures \$4600

Credit: 760 Compensated Absences Liability (long-term) \$4600

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-160 Sick Leave Termination Pay \$ 800

XXX-XXX-XXXX-170 Vacation Termination Pay \$ 650

XXX-XXX-XXXX-2XX FICA, PERS, Workers' Compensation, etc. \$ 150

XXX-XXX-XXXX-892 Prior Period Expenditures

Adjustment (1st yr. only) \$3000

(To record estimated compensated absences liability at fiscal year end. The amount of liability related to compensated absences earned this fiscal year should be charged to current expenditures under expenditure objects 160, 170 and 2XX. For the liability related to prior years' service, the expenditure should be charged to object 892.)

On the Trustees' Financial Summary, the charge to 892 will be reported as a prior period adjustment to beginning fund balance. The charges to 160, 170 and 2XX will be reported as current expenditures.

5-1350.52 RECORDING COMPENSATED ABSENCES -- ENTERPRISE FUND TYPES (Cont'd)

To record termination payments made during the year:

An Enterprise Fund

Debit: 760 Compensated Absences Liability

Credit: 620 or 101 Warrants Payable or Cash

(To record payment of termination benefits to the employee and related FICA, PERS, Workers' Compensation, etc. to various benefit providers.)

In subsequent years, to record the compensated absence liability: Adjust the liability account balance to reflect the liability calculated as of June 30. Charge the increase in liability to current expenditure accounts. For example, assume the liability at June 30 of year 2 is \$5500. The liability balance on June 30 of year 1 was \$4000, and the district recorded a termination payment in the current year of \$150. The liability account must be increased by \$1650 (\$5500 - 150 - 4000).

An Enterprise Fund

Debit: 802 Expenditures \$1650

Credit: 760 Compensated Absence Liability \$1650

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-160 Sick Leave Termination Pay \$ XXX

XXX-XXX-XXXX-170 Vacation Termination Pay \$ XXX

XXX-XXX-XXXX-2XX FICA, PERS, Workers' Compensation, etc. \$ XXX

(To record estimated compensated absences liability at fiscal year end. Adjust the 760 liability balance to match the liability amount calculated at year end. If the liability must be reduced, debit the 760 account and credit 1900 Miscellaneous Revenue, or 6100 Prior Period Revenue Adjustments, if material.)

5-1360.00 CLAIMS AND JUDGEMENTS (CONTINGENCIES)

5-1360.10 DEFINITIONS

"Claims" are potential losses that can arise from employment (e.g., workers' compensation and unemployment), contractual actions (e.g., delays or inadequate specifications), actions of government personnel (e.g., damage to government-owned vehicles), and governmental property (e.g., personal injury and property damage). In the context of insurance, claims may include demands for payment of policy benefits.

"Judgement" is an amount to be paid by a district as a result of a court decision.

5-1360.20 CLAIMS AND JUDGEMENTS LIABILITY

The liability for claims and judgements must be recorded if both of the following criteria are met:

- a. Information available prior to the end of the fiscal year-end closing period indicates that it is probable that an asset has been impaired or a liability has been incurred. That is, the events leading to the liability are likely to occur; and
- b. The amount of the loss can be reasonably estimated.

If the claims and judgements do not meet both criteria, the liability should not be recorded on the accounting records, but the contingency should be disclosed in the footnotes to the district's financial statements for that year.

If the district has a potential gain from claims and judgements, the facts should be disclosed on financial statements but should not be recorded on the accounting records.

5-1360.30 STATUTORY REFERENCES

The district may issue bonds for the purpose of funding a judgement against the district (20-9-403, MCA).

The district may pay a judgement using specific resources including a property tax collected on a special levy not to exceed 10 mills (2-9-316, MCA).

The district may request an emergency budget for a judgement for damages against the district rendered by a court after the adoption of the budget for the current year (20-9-161, MCA).

5-1360.40 BASIC ACCOUNTING PROCEDURES

NOTE: Claims and judgements encountered by school districts will normally be obligations of the district as a whole rather than obligations of a specific fund. For that reason, the discussion in this section is limited to governmental fund types only. If the district is involved in potential losses which may be construed to be the obligation of a specific fund other than the governmental fund types of the district, contact OPI for advise on special accounting procedures.

If both criteria in section 5-1360.20 are met, the liability must be recorded using the following procedures. The liability should be recorded in the GLTDAG. In the fiscal year in which a portion is paid, the payment should be recorded as an expenditure in the Debt Service Fund, and the liability recorded in the GLDAG is reduced by the amount of the principle payment. At each fiscal year-end, the district **may** record the current portion of the liability (i.e., the payment due in the next fiscal year) as a current liability in the governmental type fund and reduce the long-term liability in the GLTDAG for the current portion.

5-1360.50 RECORDING CLAIMS AND JUDGEMENT LIABILITIES

For example, assume on July 10, 19X1 the district recognized a loss contingency which is considered probable and can be estimated. The claim existed at June 30, 19X1 although the district clerk learned of the claim in July. Since the financial statements and Trustees' Financial Summary are not yet submitted, the contingency must be recorded for the year ended June 30, 19X1. The amount to be paid during fiscal year 19X1-X2 using financial resources now available in the Debt Service Fund is \$50,000. The total liability is \$150,000, including the \$50,000 current portion. The total liability will be paid over three years.

At fiscal year-end 19X0-X1, to record the portion of the liability payable within a year (current):

This entry is optional. This entry records the part of the liability which is due in the next fiscal year as a current liability. The remaining liability should be recorded as a long-term liability as shown in the next entry. Debt Service Fund (50)

Debit: 802	Expenditures	\$50,000
Credit: 622	Judgements Payable (current)	\$50,000
Expenditures Subsidiary Ledger		
X50-XXX-XXXX-820	Judgements Against the District	\$50,000

(To record the current portion of the liability for claims and judgements.)

At fiscal year-end 19X0-X1, to record the portion of the liability payable beyond a year (long-term): If the district does not choose to record the current portion of the liability in the governmental type fund as shown in the preceding entry, this entry would be recorded using the entire liability amount of \$150,000.

GLTDAG (99)

Debit: 404	Amount to be Provided for Retirement of Long-Term Debt	\$100,000
Credit: 750	Judgements Payable (long-term)	\$100,000

(To record the portion of the claims and judgement liability to be paid in subsequent years.)

IF THE CURRENT PORTION WAS RECORDED IN THE DEBT SERVICE FUND, to record payment due during fiscal year 19X1-X2:

Debt Service Fund (50)

Debit: 622	Judgements Payable (current)	\$50,000
Credit: 620 or 101	Warrant Payable or Cash	\$50,000

(To pay the current part of the liability.)

5-1360.50 RECORDING CLAIMS AND JUDGEMENT LIABILITIES (Cont'd)

IF THE CURRENT PORTION WAS NOT RECORDED IN THE DEBT SERVICE FUND, to record payment due during fiscal year 19X1-X2:

Debt Service Fund (50)

Debit: 802	Expenditures	\$50,000
Credit: 620 or 101	Warrant Payable or Cash	\$50,000
Expenditures Subsidiary Ledger		
X50-XXX-XXXX-820	Judgements Against the District	\$50,000
(To pay the current part of the liability.)		

GLTDAG (99)

Debit: 750	Judgements Payable (long-term)	\$50,000
Credit: 404	Amounts to be Provided for Retirement of Long-Term Debt	\$50,000
(To reduce the long-term liability in the GLTDAG.)		

The payment of the portion due during subsequent fiscal years should be recorded using the same procedures shown above.

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